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Sugar Annual

Colombian Sugar Production Shows Signs of Recovery from the Excessive Rains of “La Niña

Approved By:
Joseph Lopez, Agricultural Counselor

Prepared By:
Anthony J. Gilbert, Agricultural Attaché
Leonardo Pinzon, Agricultural Specialist

Report Highlights:
Colombian sugar production in Marketing Year (MY) 2012/13 is expected to decline a marginal three percent, leveling at 2.2 million metric tons (MMT). Production will rebound in MY 2013/14 and is forecast to reach 2.4 MMT. Sugar exports are projected at 820 thousand metric tons (TMT) in MY 2012/13, down six percent from the previous year. Colombia filled the 50 TMT quota in 2012 under the U.S.-Colombia Trade Promotion Agreement (CTPA) and will fill the 2013 quota as well.

Executive Summary:

Colombian sugar production is expected to increase to 2.3 MMT in MY 2013/14, following a decline of 60 TMT in MY 2012/13. The decline in production in MY 2012/13 is the result of the strong rains throughout 2011 and part of 2012 calendar year (CY). The Cauca river valley in southwest Colombia is the primary growing region for cane sugar with area in production almost at full capacity with little land for expansion. Increases in productivity are expected with improved weather. Ethanol distillery facility expansion is on hold, although new facilities will come online in 2014. Sugar exports will reduce nine percent to 820 TMT in MY 2012/13, paralleling the decline in sugar production. Colombian sugar exports are projected to reach 880 TMT in MY 2013/14 due primarily to the recovery in production and static local consumption. On May 15, 2012, the CTPA implementation included a 50 TMT quota for Colombia of raw sugar equivalent, increasing to 50.75 TMT for CY 2013.

Commodities:

Sugar, Centrifugal

Production:

In MY 2012/13, Post projects that sugar production will decline to 2.2 MMT, or about three percent lower than the previous year. Colombian sugar production is expected to recover in MY 2013/14, reaching 2.3 MMT according to Post analysis. Beginning in 2009, the “La Niña” weather phenomenon initiated a lengthy period of excessive rains that negatively impacted sugar production. Although the weather patterns gradually returned to more normal conditions by 2012, the excessive rains damaged about 30 thousand hectares of land in production. In addition, the excessive rains motivated earlier harvesting, which results in a lower cane sucrose content. Overall, the reductions in sugarcane yields were calculated at 90 to 95 tons per hectare in 2012. Post expectations for 2013 are that sugarcane yields will recover to 103 tons per hectare as weather continues to improve. As a result, sugar production is forecast to reach 2.3 MMT in MY 2013/2014. In response to better weather conditions, it is likely that the 30 thousand hectares damaged in the 2011 rains will be returned to production. As well, the excessive rains in 2012 motivated earlier cane harvesting as an approach to reduce potential yield loss. Prematurely harvested cane is lower in sucrose content, which is better suited for ethanol distilling, stimulating a 10 percent increase in ethanol production in 2012.

The main features of the Colombian sugar sector are that sugar cane is harvested year-round, supporting a continuous process of harvesting, milling and distilling. Sugarcane production and processing are heavily concentrated in the Cauca river valley. The growing climate and the density of mills and distilleries support economies of scale for sugar cane production in Cauca over other regions of Colombia. In the Cauca river valley alone there are 13 mills and five ethanol distilleries with more distilleries coming online in the near future.

On average, under normal weather conditions, the Cauca river valley harvests about 90 percent of the planted area with the rest of the land idle as part of a land management strategy. In 2013, the sugarcane area planted in the Cauca river valley was estimated at 227 thousand hectares, a six percent increase from the year before. The Cauca river valley is one of the most efficient sugarcane producing regions in South America, yielding on average approximately 120 metric tons (MT) per hectare. However, the impacts of the 2009 to 2012 “La Niña” rains have detrimentally impacted sugarcane area harvested and yields with lower than average production, down to about 80 MT per hectare. Land in production and yields have begun to recover and will likely reach 110 MT per hectare in 2013.

The Colombian sugar industry is highly vertically integrated with only a few companies managing all the sugar cane production and processing for ethanol, power generation and the food industry. In 2005, distilleries began producing ethanol, impacting sugar production and distribution to local and external markets. Domestic ethanol demand has offset sugar exports significantly, about 40 percent annually since 2006. In 2012, ethanol production reached 370 million liters and plant capacity remains at approximately 1.3 million liters per day.

The Colombian sugar industries research organization, CENICAÑA, has developed programs for land management to increase productivity, as well as researching sugarcane varieties that would better adapt to climate change and extreme variations in weather patterns.

Non-Centrifugal Sugar:

Colombia is the second largest non-centrifugal sugar, locally known as *panela*, producer in the world after India according to the United Nations Food and Agriculture Organization (FAO). There are an estimated 70 thousand *panela* farmers with 80 percent of production occurring on farms of less than 5 hectares. The *panela* sector employs approximately 120 thousand subsistence farmers throughout Colombia.   *Panela* production is dispersed with thousands of low technology crushing facilities throughout Colombia. In 2012, Colombian non-centrifugal sugar production was 1.2 MMT, a five percent increase from the previous year due to less rain.

Consumption:

In MY 2012/13, Colombian sugar consumption is estimated at 1.7 million tons, nearly unchanged from the year before. Consumption is driven by demand from the confectionary sector to satisfy increased exports of processed food products. Sugar mills prefer the Colombian refined sugar market because of higher prices and higher returns compared to raw sugar. Raw sugar is mainly exported to foreign markets to satisfy the U.S. sugar quota and demand in Europe. For *panela*, Colombian per capita consumption is estimated at 25 kilograms annually, the highest in the world according to the FAO.

Trade:

Colombia is a net exporter of sugar. Exports of sugar are sensitive to international prices and to domestic increases in ethanol production. International prices fell in 2012 stimulating a sudden increase in the foreign demand for Colombian sugar. However, prices are expected to remain stable in 2013. The Post estimate is that exports will decline to 820 TMT for 2012/13; however, 2013/14 exports will parallel production and reach 880 TMT.

In 2006, ethanol production went into the first full year of production with Colombian sugar imports starting to capture a portion of the market, supplying eight percent of total local demand. Since then imports in 2012 year represent 19 percent of the domestic market.

Chile remains the first destination for Colombian sugar exports, which in MY 2011/2012 reached 215 TMT, although exports lowered by 18 percent compared with a year earlier. The second largest markets for Colombian sugar were Peru, Mexico and Ecuador. About 25 percent of all Colombian sugar exports are to Chile.

On May 15, 2012 the CTPA was implemented, and as a result, Colombia was able to export to the United States under both, the WTO quota and the CTPA quota, 77 TMT of sugar. As every year, Colombian Government expects to export to the United States at least the sugar quota assigned under the WTO commitment at 24 TMT and the TRQ under the CTPA for 2103 set at 50.7 TMT.

Colombia's sugar imports doubled in MY 2011/12 to 322 TMT. Post expects imports to decline 10 TMT in MY 2012/13 due to fewer exports. Colombian export competitiveness has been challenged as a result of a strong peso. Brazil, Bolivia, Peru and Guatemala supply 99 percent of the total Colombian imports. Sugar imports from Bolivia and Ecuador enter duty free under trade preferences with the Andean Community of Nations (CAN). Brazil is subject to a lower duty under a regional trade preference pact: the Latin America Integration Association.

Stocks:

Colombia produces sugar year-round and is able to meet domestic market demand without supply disruptions. There are no GOC programs or incentives for sugar mills to hold inventories according to Post industry sources and most storage is for short timeframes to meet more immediate processing needs. Private sector sugar inventories for both domestic and export markets are projected to reach 300 TMT in MY 2012/13, about a 10 percent decrease from the previous year. In MY 2013/14, Post forecasts inventories to increase 65 TMT.

Policy:

Sugar Price Stabilization Fund (PSF)

Colombia is a net exporter of sugar with production satisfying both domestic sugar demand and raw cane for ethanol distilling. The PSF mechanism was established in 2001 to avoid oversupply and low prices in the domestic sugar market. Given thin margins for sugar mills, low prices would create an economic burden to milling operations. The PSF provides incentives for sugar exports by hedging against domestic and international market price differentials, setting a market weighted average price (MWAP). Historically, the domestic sugar prices are higher than export prices, but not including the U.S. sugar quota. Milling operations that sell sugar at prices above the MWAP, or typically the domestic market, will contribute the difference to the PSF. Those that sell sugar at prices below the MWAP, on the other hand, will receive the difference in compensation from the PSF.

Price Band

Sugar imports from CAN countries are allowed duty-free entry into Colombia. Imports from outside the CAN are subject to a variable duty under a price band system. The basic duty rate on imports of raw and refined sugar from non-CAN countries is 15 percent.

The CAN revises the price band, both ceiling and floor, every April. The duty adjustment is made based on whether a reference price is above or below the ceiling and floor price respectively. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the sugar import duty is set at a 20 percent of the invoice value. When the reference price falls below the floor price, a variable surcharge based upon the difference between the floor price and the reference price is assessed. When the reference price exceeds the ceiling price, however, a reduction is made to the applied duty rate based upon the difference between the reference and the ceiling price.

The CAN price band from the period of April to March 2013/14 is illustrated below:

CAN Price Band ***April 2010 to March 2011***				
	Floor Price *US$ per ton* *April / March*		***Ceiling Price*** *US$ per ton* *April / March*	
	2012/13	**2013/14**	**2012/13**	**2013/14**
Raw Sugar	$428	$487	$588	$632
Refined Sugar	$535	$595	$699	$744

Source: CAN

For the first two weeks of April 2013, the international reference prices for raw and refined sugar were set at $436 and $556 per ton. For both raw and refined sugar, the reference prices are below the floor price, so an additional variable duty of 13 percent for raw sugar and eight percent for refined sugar are added to the basic duty. The duty, therefore, for raw sugar will be 21 percent and 23 percent for refined sugar.

CTPA

In October, 2011, The US Congress ratified the CTPA and the Colombian government is adjusting legislation and custom procedures to accommodate CTPA implementation. On May 15, 2012, the CTPA was implemented. The implementation eliminated the price band duty for imports from the United States. For 2013, the agreement set a TRQ of 11,025 MT with a five percent annual increase for glucose, which includes high-fructose corn syrup. As well, the basic import duty beyond the quota will be reduced from 20 to two percent annually until elimination at the end of the 10-year phase-out period.

CAN and Southern Common Market (MERCOSUR)

CAN members (Peru, Ecuador and Bolivia) have duty free access to Colombia's sugar market. Under the Colombia/MERCOSUR free trade agreement, which entered into effect in February 2005, sugar was largely excluded. Colombia maintains the price band system and there was no agreement reached on when tariff reduction would begin. However, Colombia continues to grant trade preferences under previous bilateral agreements, such as LAIA, where MERCOSUR members pay only a percentage of the basic duty rate. The actual duties paid are as follows: Argentina and Brazil 13.2 percent for raw and refined sugar; Paraguay 9.9 percent on raw and refined sugar; and Uruguay 12 percent on raw and refined sugar.

Prices:

The price for local sugar in Colombia is mainly based on international sugar prices adjusted with transportation costs and import duties sold in the domestic market. The duty for sugar is a variable duty under the CAN price band mechanism (see above). The New York Commodity Exchange price is the basis for raw sugar and the London Sugar Exchange price is the basis for refined or white sugar. In

2012, the average price for raw sugar at NYCE was $ 0.22 per pound and the average price for refined sugar at $0.27 per pound. Even though both prices declined in 2012, they are still well above the 10 year average price equal to $0.12 and $0.19 for raw and refined sugar respectively.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Colombia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Sep 2011		Market Year Begin: Sep 2012		Market Year Begin: Sep 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	390	390	375	335		300
Beet Sugar Production	0		0	0		0
Cane Sugar Production	2,310	2,270	2,310	2,210		2,400
Total Sugar Production	2,310	2,270	2,310	2,210		2,400
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	322	322	330	310		290
Total Imports	322	322	330	310		290
Total Supply	3,022	2,982	3,015	2,855		2,990
Raw Exports	143	143	150	150		150
Refined Exp.(Raw Val)	733	733	725	670		730
Total Exports	876	876	875	820		880
Human Dom. Consumption	1,766	1,766	1,800	1,730		1,740
Other Disappearance	5	5	5	5		5
Total Use	1,771	1,771	1,805	1,735		1,745
Ending Stocks	375	335	335	300		365
Total Distribution	3,022	2,982	3,015	2,855		2,990
1000 MT						